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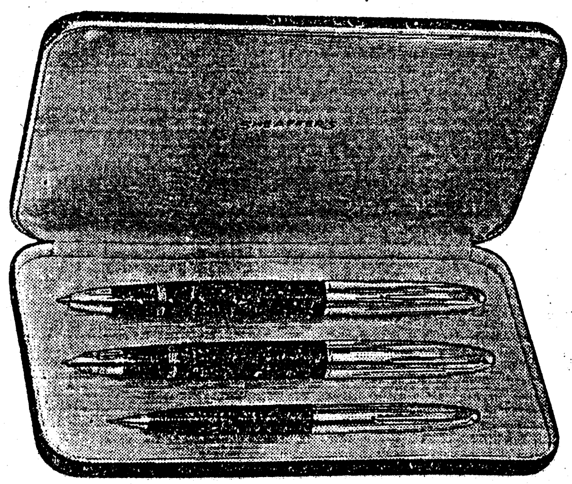

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DELIVER TO PEN DEPT.

W. A. SHEAFFER PEN COMPANY

Fort Madison, Iowa, U. S. A.

The Makers of

SHEAFFER'S

Pens, Pencils, Desk Sets, Skrip, Leads

ANNUAL REPORT

FOR THE FISCAL YEAR ENDED
FEBRUARY 28, 1949

W. A. SHEAFFER PEN COMPANY

General Office and Factory

FORT MADISON, IOWA, U. S. A.
IN CANADA: - MALTON, ONTARIO

OFFICERS

C. R. SHEAFFER	President
G. A. BECK	Executive Vice-President
H. E. WALDRON	Vice-President
G. F. OLSON	Vice-President
W. F. HEISING	Vice-President
L. J. FRANTZ	Secretary
W. A. SHEAFFER, II	Treasurer

E. L. FOLKER, Assistant Secretary and Assistant Treasurer

DIRECTORS

C. R. SHEAFFER
G. A. BECK
H. E. WALDRON
G. F. OLSON
W. F. HEISING
W. A. SHEAFFER, II
R. O. THOMAS

TRANSFER AGENT

The Corporation Trust Co.
120 Broadway
New York City

or

The Corporation Trust Co.
15 Exchange Place
Jersey City, New Jersey

AUDITORS

Ernst & Ernst
Continental Illinois Bank Building
Chicago, Illinois

REGISTRAR

The Chase National Bank
of the City of New York
11 Broad Street
New York City

GENERAL COUNSEL

E. H. POLLARD
Lee County Bank Building
Fort Madison, Iowa

W. A. SHEAFFER PEN COMPANY

FORT MADISON, IOWA

☆

April 22, 1949

TO THE STOCKHOLDERS OF THE W. A. SHEAFFER PEN COMPANY:

Last year I devoted a large part of my annual stockholders' letter to a discussion of your Company as a company. This year I should like to talk about a still broader subject — the role of this Company, and of all companies, in our economy and the type of social, political and economic climate in which enterprise must operate if it is to operate effectively.

Before getting on with that subject, however, I would like to give you this brief review of what took place during the past fiscal year:

Dividends of $1.50 per share were paid, as compared to $1.20 per share for the previous fiscal year.

Total compensation paid to officers and directors was $225,071.71 compared to $211,401.68 for the previous year.

Net sales decreased from $23,279,529.85 to $22,297,441.80, but our profits after taxes increased from $1,825,581.75 for the previous fiscal year to $2,471,161.51 for this fiscal year. Both profit figures are after taking into account the provision for loss on our Canadian subsidiary. On a per share basis and after taking this same provision into account, these profits amounted to $3.06 as compared to $2.25 per share last year.

Speaking of the Canadian subsidiary, its showing has been disappointing largely due to the inaccessibility of the foreign markets that it was primarily set up to serve. The dollar and other restrictions in foreign countries will, until removed, affect profitable operations at the plant in Canada. This is not to say, however, that our Canadian company cannot operate at a profit even without substantial export business.

Our cash position is good and a decided improvement over last year, which is also true of our over-all financial structure. Although the amount of cash and liquid assets on hand might seem to have permitted a larger dividend, it should be remembered that we still have outstanding a 15-year term loan in the unpaid amount of $3,700,000.00. I also want to point out that, while our machinery is in excellent shape, more will be needed from time to time. These needs, together with a contemplated building program, will call for an outlay of considerable cash. In addition, we must, of course, build up "staying power" for whatever financial strains may develop later on. Dividend policy involves many factors bearing on the ability of the business to continue in the future, as in the past, to serve its customers, provide jobs and earn a reasonable profit for stockholders. Over the long period the amounts reinvested in the business help to meet these continuing objectives.

Although no general wage increases were given during the year, many individual increases in pay were granted, and the four profit-sharing payments that were made to the employees for the year represented, in the aggregate, the largest percentage of earnings that has been distributed since the Employees' Profit-Sharing Plan was adopted in 1934. Each of the first two profit-sharing payments amounted to 15% of the employees' earnings for the preceding three months; the third payment amounted to 20%; and the fourth, 25%.

We introduced this year a new filling device for certain lines of our fountain pens which we have called the "Touchdown". The story of its features and advantages is told in the accompanying copy of our "Life" brochure. For the reasons stated in that brochure, we anticipate good reception of this new product by our dealers and customers. Research in the field of other new devices, new designs, new colors, new products, new methods and over-all business administration is never-ending and has been stepped up to meet competition's accelerated pace.

This year carried, in full measure, its quota of complex problems. It is gratifying and encouraging to know that the employees and the management were prepared to meet and to solve those problems with mutual confidence and respect. Thanks to them, the year was a good one.

OUTLOOK FOR THE FUTURE

Although writing instruments are again in plentiful supply and will have to sell on their merits in an intensely competitive market, I have no hesitancy in stating that we can look to our own skill and experience and to our capable dealer organization to give a good account of themselves under whatever conditions may develop in the fountain pen industry.

I am not so optimistic, however, about the economic climate in which our enterprise — and every privately-owned and managed enterprise — will be called upon to operate. I am not optimistic because there still persists a great lack of understanding of industrial economics and of what must be done to preserve and strengthen the role of industry in our economy.

CONCENTRATION OF ECONOMIC POWER

A few months ago, I received a letter from one of our stockholders making the general statement that a minority stockholder had no voice whatsoever in conducting corporate affairs and implying that the ownership of corporations, in general, was concentrated in the hands of a few individuals. I tried to dispel his belief about the concentration of economic power by showing how many people own American industry and by calling his attention to a recent survey which disclosed that, of the 120 biggest United States manufacturing companies, there were only four in which any individual owned as much as ten per cent of the voting stock. These 120 companies, incidentally, were owned by over six million stockholders, almost 40% more than the number of employees. I asked him whether we shouldn't be more concerned with how many people receive the benefits from the operation of a given enterprise rather than with how many own it. For example, a very few people own the Ford Motor Company, yet the benefits arising out of that company are certainly not confined to just the members of the Ford family.

NEGLECTED OWNERSHIP

I mention this letter not only because it illustrates a point of view that, if generally prevalent, can be a serious threat to free enterprise, but because it also raises a problem that, to my knowledge, has not yet been solved — that is, the problem of encouraging greater stockholder interest and participation in company affairs.

By and large, the investor today is the forgotten man, financially and otherwise. The word "ownership" seems to have lost its meaning and its significance. And it is not, as I see it, a matter of the small stockholder having no "voice" in company affairs. Rather, it is a matter of the amazing indifference on the part of too many stockholders, whether large or small.

I am convinced that a deeper understanding and keener interest on the part of the average stockholder is absolutely essential for a free economy, as well as for a better understanding of the extent to which Government policies, particularly in the field of taxation, have encroached upon his ownership. If, therefore, you have any suggestions as to how we might encourage greater stockholder interest and participation, those suggestions, I can assure you, would be most welcome.

THE AMERICAN ECONOMY

It shouldn't be necessary to defend our kind of economy. It has produced so many more benefits for so many more people than any other kind of economy that you would think that our unequaled standard of living would, in and of itself, clinch the argument. Yet, every day and from many quarters we hear loose talk of exorbitant corporate profits, unfair distribution of wealth, concentration of economic power and the like — all alleged evils arising out of the American economic system.

Somehow you and I, if we believe in our system, must get the true facts before the public. We must, for example, let it be known that, through the "trickle down" process of capitalism, almost 90% of the wages and salaries in this country is paid to individuals earning less than $5,000.00 a year; that this same under $5,000.00-a-year group receives just under 70% of all the dividends and interest paid in the United States. (Dividends and interest, by the way, are returns on capital — in other words, they represent "profits" and the recipients are "Capitalists".)

We need to make it known that, through this same capitalistic process, the "Gluttons of Privilege" — the $25,000-a-year-and-over people — are left with only 1.3% of the national income after taxes — as compared to 6.7% in 1917, 3.4% in 1932, and 2.5% in 1941.

WHAT ARE "PROFITS"?

We need to explain the meaning of "profits" and "surplus"—and their significance. So many people seem to think that they are a lot of cash piled high in corporate vaults, little realizing that, in actuality, profits and surplus consist of inventories and machinery and land and factories.

ARE THEY "TOO HIGH"?

I know of no formula whereby we can determine whether profits are "too high". I only know that, in trying to decide whether they are or whether they aren't, those who pass judgment must constantly be reminded that the profit dollar is worth no more than any other dollar, that the cost of doing business has gone up just like the cost of living, that depreciation reserves are wholly inadequate, and that larger profits and a larger surplus, in terms of present-day dollars, must be earned if industry is to have the wherewithal to meet the greatly increased cost of replacement and expansion.

THE IMPORTANCE OF ECONOMIC INCENTIVE

The driving force behind the effort that is made by almost any individual and by almost any organization is the promise of material reward. The wage earner works harder so that he may receive higher wages. The salaried employee puts forth greater effort so that he may get a better job or receive an increase in pay. The individual with savings invests those savings in a risky venture rather than in Government bonds so that he may receive a higher rate of return. The business enterprise improves its efficiency and its product so that it may enjoy larger profits.

That is all very elementary, and yet it seems to me that a good many of us overlook this obvious truth. We sometimes forget that it is the economic incentive that has been responsible for our progress to date — and will determine our progress in the future. What's even more important, we fail to observe, or do anything about, the slow but sure destruction of this incentive.

I see no compelling reason for the wage earner or the salaried man to work harder when he is led to believe not only that he doesn't have to work harder but that additional effort isn't even wanted — that the Government will provide, by confiscating the earnings of corporations and of individuals in the middle and upper-income brackets, those things such as homes, education, medical service and the like that were once considered goals to be attained by individual effort.

It seems to me rather foolish for the prospective investor to put his money in a risky venture instead of in Government bonds when he must bear the loss alone but must share his profit — unequally — with the tax collector.

Time and again members of management can be heard to say: "What's the sense of any all-out effort when, after my personal income reaches a modest point, the Government takes about all?" And if that sounds like strictly a management worry, please bear in mind that it is management that must make an enterprise function. It is management that must provide opportunities for employment. It is, therefore, **everyone's** worry when management says, "What's the use?"

It is surprising, when you stop to think of it, that a corporation should try to turn out a better product and make more profits when profits are already "too high", "disgraceful" and confiscated to the extent of 38% — with even more in the offing. It is surprising — and alarming — to find that so many individuals believe that a corporation is just an impersonal, inanimate sort of thing that can go on forever giving up funds without destroying its ability to replace and to expand and without eventually affecting employment.

THE POWER TO DESTROY

I wanted to discuss these few points with you because I have felt so strongly that they must be discussed and seriously considered if we are to protect our economic incentive from a tax structure that is nothing short of a monstrosity. And it's not merely a question of whether or not business enterprise and our citizens in the middle and upper-income brackets can afford, in dollars and cents, to pay such a tremendous tax bill. It isn't even merely a question of whether poor people can be made richer by making rich people poorer. It's a question of whether there is any incentive left at all to go on trying to attain financial success, whether as a corporation or as an individual.

ACHIEVEMENT ASSURED, IF PERMITTED

It is the responsibility of a free economy to provide maximum employment and an ever-increasing standard of living for all to enjoy. I am confident that our economy **can** do just that. The only problem is whether we will permit it to do so — by maintaining and strengthening the basic desire for economic self-advancement, the motivating power behind human accomplishment.

If you agree with these sentiments, won't you please take the time to let your views be known wherever they will do the most good.

Respectfully yours,

C. R. Sheaffer

President.

ACCOUNTANTS' REPORT

☆

March 24, 1949

Board of Directors,
W. A. Sheaffer Pen Company,
Fort Madison, Iowa.

We have examined the balance sheet of **W. A. Sheaffer Pen Company** as of February 28, 1949, and the related statements of profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Such procedures included tests of the accounts receivable balances by direct communication with debtors, observation of procedures followed by the Company in the determination of inventory quantities and tests to satisfy ourselves as to the existence and general accuracy of the quantities.

In our opinion, the accompanying balance sheet and statement of profit and loss and earned surplus present fairly the financial position of **W. A. Sheaffer Pen Company** at February 28, 1949, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST,
Certified Public Accountants.

W. A. SHEAFFER

BALANCE

FEBRUARY 28, 1949, an

ASSETS

	Feb. 28, 1949	Feb. 29, 1948
CURRENT ASSETS:		
Cash	$ 4,037,988.36	$ 4,071,913.72
United States Treasury bills — at cost and accrued interest	3,996,200.36	997,752.51
Trade notes and accounts receivable:		
Trade notes	$ 73,734.20	$ 23,532.82
Trade accounts	1,510,689.22	2,195,097.17
Less allowance for doubtful notes and accounts (credit*)	100,000.00*	75,000.00*
	$ 1,484,423.42	$ 2,143,629.99
Other notes and accounts receivable	51,427.05	245,968.69
Inventories — at the lower of cost (first-in, first-out method) or market:		
Finished products	$ 1,334,434.30	$ 1,405,297.71
Work in process and finished parts	3,220,766.76	3,503,626.70
Raw materials	941,455.16	1,770,170.57
Materials in transit	38,602.87	66,559.94
	$ 5,535,259.09	$ 6,745,654.92
TOTAL CURRENT ASSETS	$ 15,105,298.28	$ 14,204,919.83
INVESTMENTS AND OTHER ASSETS:		
Investments in and advances to Canadian subsidiaries (wholly-owned) — Note A:		
Capital stock	$ 107,011.10	$ 107,011.10
Advances	1,444,428.35	1,129,815.69
Less allowance for loss (credit*)	500,000.00*	300,000.00*
	$ 1,051,439.45	$ 936,826.79
Federal taxes and renegotiation refund receivable	——o——	31,118.77
Unpaid balances of stock subscription of officers (1949—$ 114,717.22: 1948—$ 162,698.69) and employees—common stock of the Company held as collateral (1949—37,660 shares; 1948—41,250 shares)	141,791.88	183,518.04
Non-operating real estate and equipment — at cost, less allowances for depreciation (1949 — $ 54,641.37; 1948 — $ 53,947.50)	55,198.54	99,768.47
Miscellaneous deposits, accounts, and investments	4,386.89	7,262.48
TOTAL INVESTMENTS AND OTHER ASSETS	$ 1,252,816.76	$ 1,258,494.55
PROPERTY, PLANT, AND EQUIPMENT — on the basis of cost		
Land	$ 50,996.54	$ 50,996.54
Buildings, machinery, and equipment	3,208,779.15	3,028,089.83
Less allowances for depreciation (credit*)	1,415,972.06*	1,340,665.49*
TOTAL PROPERTY, PLANT, AND EQUIPMENT	$ 1,843,803.63	$ 1,738,420.88
PATENTS, TRADE-MARKS, AND GOOD WILL	1.00	1.00
DEFERRED CHARGES:		
Inventories of supplies, prepaid insurance, and advertising, etc.	320,416.82	289,700.01
	$ 18,522,336.49	$ 17,491,536.27

PEN COMPANY

SHEETS
d FEBRUARY 29, 1948

LIABILITIES

	Feb. 28, 1949	Feb. 29, 1948
CURRENT LIABILITIES:		
Trade accounts payable	$ 47,863.14	$ 151,917.16
Customers' credits — payable principally in merchandise	910,277.76	1,115,530.57
Due to Employees' Savings and Profit-Sharing Trust Fund	81,910.78	48,092.71
Salaries, wages, bonuses, and commissions	573,133.12	527,812.48
Taxes withheld from employees, savings bond deductions, and other accounts payable	82,113.54	96,703.11
"Lifetime" product guarantee cost — estimated	150,000.00	150,000.00
Accrued taxes and other expenses	95,545.53	101,191.96
Federal and state taxes on income — estimated	1,806,167.93	1,439,257.61
Current maturity of long-term debt	300,000.00	300,000.00
TOTAL CURRENT LIABILITIES	$ 4,047,011.80	$ 3,930,505.60
LONG-TERM DEBT — Note B		
Serial notes payable to banks and insurance companies, maturing in annual amounts of $ 300,000.00 to 1952 and $ 250,000.00 thereafter, less amount included in current liabilities	3,400,000.00	3,700,000.00
CAPITAL STOCK AND SURPLUS:		
Common stock — $ 1.00 par value — Note B:		
Authorized — 825,000 shares		
Issued — 811,775 shares, including shares in treasury (1949 — 4,135 shares; 1948 — none)	$ 811,775.00	$ 811,775.00
Surplus:		
Paid-in surplus — Note C	108,716.52	106,300.26
Earned surplus (earnings retained in business, less amounts transferred to capital stock account) — Note B	10,204,839.42	8,942,955.41
	$ 11,125,330.94	$ 9,861,030.67
Less common shares in treasury (1949 — 4,135 shares; 1948 — none) at cost	50,006.25	—o—
TOTAL CAPITAL STOCK AND SURPLUS	$ 11,075,324.69	$ 9,861,030.67
	$ 18,522,336.49	$ 17,491,536.27

(See Notes to Financial Statements.)

W. A. SHEAFFER PEN COMPANY, FORT MADISON, IOWA

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STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS

Years Ended February 28, 1949, and February 29, 1948

	YEAR ENDED Feb. 28, 1949	Feb. 29, 1948
NET SALES	$ 22,297,441.80	$ 23,279,529.85
OTHER INCOME:		
Interest earned	64,199.13	25,683.99
Discount on purchases	62,910.50	82,472.90
Miscellaneous income	48,178.80	48,547.83
	175,288.43	156,704.72
	$ 22,472,730.23	$ 23,436,234.57
DEDUCTIONS FROM INCOME:		
Cost of products sold (before provision for depreciation)	$ 10,688,714.76	$ 12,296,259.53
Provision for depreciation	148,776.34	130,489.79
Selling, administrative, and general expenses	5,664,977.92	6,266,144.97
Interest paid	101,141.68	59,993.66
Profit-sharing payments to employees and officers	1,235,766.01	1,022,669.92
Contribution to Employees' Savings and Profit-Sharing Trust Fund	290,030.46	222,077.16
Provision for doubtful accounts	69,293.70	32,287.21
Miscellaneous deductions	26,612.27	20,730.58
	$ 18,225,313.14	$ 20,050,652.82
PROFIT BEFORE TAXES ON INCOME AND SPECIAL PROVISION	$ 4,247,417.09	$ 3,385,581.75
Federal and state taxes on income — estimated:		
Provision for the year	$ 1,640,000.00	$ 1,260,000.00
Less overprovision for prior years	63,744.42	—o—
	$ 1,576,255.58	$ 1,260,000.00
PROFIT BEFORE SPECIAL PROVISION	$ 2,671,161.51	$ 2,125,581.75
Provision in recognition of net loss of Canadian subsidiary — Note A	200,000.00	300,000.00
NET PROFIT FOR THE YEAR	$ 2,471,161.51	$ 1,825,581.75
Earned surplus (earnings retained in business, less amounts transferred to capital stock account) — Note B:		
Balance at beginning of the year	$ 8,942,955.41	$ 8,091,503.66
Less cash dividends paid (1949—$ 1.50 a share; 1948—$ 1.20 a share)	1,209,277.50	974,130.00
	$ 7,733,677.91	$ 7,117,373.66
EARNED SURPLUS AT END OF THE YEAR	$ 10,204,839.42	$ 8,942,955.41

The profit and loss statement for the year ended February 29, 1948, has been restated to conform to the classification in effect for the year ended February 28, 1949.

(See Notes to Financial Statements.)

NOTES TO FINANCIAL STATEMENTS

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W. A. SHEAFFER PEN COMPANY

February 28, 1949

Note A — The amounts of the Company's investments in and advances to its subsidiaries exceeded its equity in the underlying net assets at February 28, 1949, by $ 431,978.00 before giving effect to the allowance for loss of $ 500,000.00. The assets, liabilities, and results of current year's operations are shown in the following summary (converted on the basis of the free rate of exchange):

	W. A. Sheaffer Pen Co. of Canada Limited	Sheaffer Realty Limited	Combined
Current assets	$ 691,219	$ 131	$ 691,350
Plant, equipment, and other assets	198,860	318,948	517,808
TOTAL ASSETS	$ 890,079	$ 319,079	$ 1,209,158
Current liabilities	74,247	15,450	89,697
EQUITY OF PARENT COMPANY IN NET ASSETS	$ 815,832	$ 303,629	$ 1,119,461
Net profit (loss*) for year ended February 28, 1949	$ 164,491*	$ 24	$ 164,467*

Note B — The terms of the agreement covering the serial notes payable, among other things, places restrictions upon the payment or declaration of dividends on, or the purchase or retirement of the Company's capital stock. At February 28, 1949, the amount of earned surplus which was not subject to these restrictions amounted to $ 3,063,329.51.

Note C — The increase of $ 2,416.26 in paid-in surplus during the year represents the excess of proceeds from sale of treasury shares over the cost thereof.

BALANCE SHEET

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EMPLOYEES' SAVINGS AND PROFIT-SHARING TRUST FUND

(G. A. BECK, E. L. FOLKER, and FORT MADISON SAVINGS BANK, Trustees)

February 28, 1949

ASSETS

Cash			$ 184,769.37
Notes receivable			50,902.58
Due from W. A. Sheaffer Pen Company			81,910.78
INVESTMENTS:			
United States Government Securities — at cost and accrued interest (aggregate quoted market prices or redemption values $1,345,165.81)		$ 1,379,939.39	
Other stocks and bonds — at cost and accrued interest on bonds (aggregate quoted market prices $ 620,934.61)		625,826.70	2,005,766.09
			$ 2,323,348.82

LIABILITIES AND PRINCIPAL

LIABILITIES:			
Due to former participants under terms of settlement			$ 46,286.11
PRINCIPAL:			
Participants' accounts and undistributed portion of Company's contribution and net income:			
Balance at March 1, 1948		$ 1,842,688.60	
ADD: Excess of income over expenses for the year ended February 28, 1949		68,369.77	
Participants' contributions		289,200.65	
Company's contribution		290,030.46	
		$ 2,490,289.48	
DEDUCT: Refunds and settlements arising out of termination of participation	$ 182,187.47		
Applied in payment of participants' notes	13,506.81		
Net adjustment of participants' accounts resulting from settlements (transferred to income)	17,532.49	213,226.77	2,277,062.71
			$ 2,323,348.82

Board of Directors,
W. A. Sheaffer Pen Company,
Fort Madison, Iowa.

We have examined the balance sheet of EMPLOYEES' SAVINGS AND PROFIT-SHARING TRUST FUND, (G. A. Beck, E. L. Folker, and Fort Madison Savings Bank, Trustees) as of February 28, 1949. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet presents fairly the position of the Fund at February 28, 1949, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chicago, Illinois,
March 24, 1949.

ERNST & ERNST,
Certified Public Accountants.

BALANCE SHEET

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SHEAFFER PEN COMPANY TRUST FUND

(C. R. SHEAFFER, E. H. POLLARD, and G. A. BECK, Trustees)

February 28, 1949

ASSETS

Cash - - - - - - - - - - - - - - - -			$ 34,486.83
Notes receivable (4,350 shares of W. A. Sheaffer Pen Company's common stock held as collateral) - - - - - - - -			44,577.75
INVESTMENTS:			
United States Treasury Bonds, Series G — at cost and accrued interest (redemption value $ 96,809.57) - - - - - - - - -		$ 100,614.57	
Corporation stocks and bonds — at cost and accrued interest on bonds (aggregate quoted market prices $ 37,571.42) - - - - -		33,360.12	133,974.69
			$ 213,039.27

LIABILITIES AND PRINCIPAL

LIABILITIES:			
Accounts payable - - - - - - - - - - -			$ 8,285.00
Federal and state taxes on income — estimated - - - - -			250.00
PRINCIPAL:			
Contributed by W. A. Sheaffer Pen Company - - - - -		$ 100,000.00	
Arising from operations of the Fund: Balance at March 1, 1948 - - - - - -	$ 100,391.87		
ADD: Excess of income over expenses for the year ended February 28, 1949 - - - - - - -	4,112.40	104,504.27	204,504.27
			$ 213,039.27

Board of Directors,
W. A. Sheaffer Pen Company,
Fort Madison, Iowa.

We have examined the balance sheet of SHEAFFER PEN COMPANY TRUST FUND (C. R. Sheaffer, E. H. Pollard, and G. A. Beck, Trustees) as of February 28, 1949. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet presents fairly the financial position of the Fund at February 28, 1949, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chicago, Illinois,
March 24, 1949.

ERNST & ERNST,
Certified Public Accountants.

TEN-YEAR SUMMARY OF OPERATIONS

W. A. SHEAFFER PEN COMPANY

Years Ended February 29, 1940, to February 28, 1949

	1940	1941	1942
NET SALES	$ 5,595,706	$ 6,458,726	$ 9,161,584
Interest earned, discounts on purchases, and miscellaneous income	47,628	53,376	56,498
	$ 5,643,334	$ 6,512,102	$ 9,218,082
Deductions from income:			
Cost of products sold (before provision for depreciation)	$ 2,573,295	$ 2,876,449	$ 3,980,654
Provision for depreciation	36,033	40,314	43,544
Selling, administrative, and general expenses	1,789,925	2,007,290	2,516,642
Interest paid	22	61	3,126
Profit-sharing payments to employees and officers	310,925	368,815	506,246
Contribution to Employees' Savings and Profit-Sharing Trust Fund	—	—	—
Provision for doubtful accounts and miscellaneous deductions	29,039	37,235	61,983
	$ 4,739,239	$ 5,330,164	$ 7,112,195
PROFIT BEFORE TAXES ON INCOME AND SPECIAL PROVISION	$ 904,095	$ 1,181,938	$ 2,105,887
Provision for federal and state taxes on income	$ 159,800	$ 369,000	$ 1,171,080
PROFIT BEFORE SPECIAL PROVISIONS	$ 744,295	$ 812,938	$ 934,807
Provision for post-war adjustments and contingencies (credit)	—	—	—
Provision in recognition of net loss of Canadian subsidiary	—	—	—
NET PROFIT	$ 744,295	$ 812,938	$ 934,807
Net working capital	$ 2,776,843	$ 3,040,858	$ 3,463,516
Dividends on common stock	$ 478,933	$ 518,535	$ 514,409
Earnings retained in business	$ 265,362	$ 294,403	$ 420,398
Earnings per share of common stock (A)	$ .93	$ 1.03	$ 1.18
Dividends paid per share of common stock (A)	$ .60	$ .65	$ .65
Stockholders as of end of year	2319	2329	2339
Employees as of end of year	1194	1390	1799

(A) On basis of new $1.00 par value stock.

The operating data shown for the year ended February 29, 1948 and prior years has been restated to conform to the classification of the year ended February 28, 1949.

1943	1944	1945	1946	1947	1948	1949
$ 14,366,811	$ 17,090,635	$ 19,611,615	$ 14,658,846	$ 23,515,425	$ 23,279,530	$ 22,297,442
58,762	108,500	117,400	145,572	174,313	156,705	175,288
$ 14,425,573	$ 17,199,135	$ 19,729,015	$ 14,804,418	$ 23,689,738	$ 23,436,235	$ 22,472,730
$ 6,239,933	$ 7,871,552	$ 9,941,392	$ 8,369,922	$ 12,125,483	$ 12,296,260	$ 10,688,715
116,777	162,723	167,555	144,031	87,472	130,490	148,776
2,680,554	2,689,655	3,778,591	3,742,381	5,536,873	6,266,145	5,664,978
282	881	12,881	14,715	6,063	59,994	101,142
593,447	674,136	842,123	802,309	1,244,717	1,022,670	1,235,766
122,500	195,672	130,368	94,163	297,052	222,077	290,030
77,186	48,865	39,339	29,951	4,892	53,017	95,906
$ 9,830,679	$ 11,643,484	$ 14,912,249	$ 13,197,472	$ 19,302,552	$ 20,050,653	$ 18,225,313
$ 4,594,894	$ 5,555,651	$ 4,816,766	$ 1,606,946	$ 4,387,186	$ 3,385,582	$ 4,247,417
3,319,787	4,198,000	3,682,196	989,486	1,713,720	1,260,000	1,576,256
$ 1,275,107	$ 1,357,651	$ 1,134,570	$ 617,460	$ 2,673,466	$ 2,125,582	$ 2,671,161
175,900	118,537	----------	(230,000)	----------	----------	----------
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$ 1,099,207	$ 1,239,114	$ 1,134,570	$ 847,460	$ 2,673,466	$ 1,825,582	$ 2,471,161
$ 3,375,392	$ 3,900,424	$ 4,204,884	$ 5,403,049	$ 6,467,691	$ 10,274,414	$ 11,058,286
$ 473,572	$ 478,585	$ 479,933	$ 471,803	$ 724,748	$ 974,130	$ 1,209,277
$ 625,635	$ 760,529	$ 654,637	$ 375,657	$ 1,948,718	$ 851,452	$ 1,261,884
$ 1.39	$ 1.55	$ 1.45	$ 1.07	$ 3.29	$ 2.25	$ 3.06
$ .60	$ .60	$ .60	$ .60	$ .90	$ 1.20	$ 1.50
2338	2366	2402	2368	2360	2548	2694
2059	2478	2233	2790	3504	2695	2120

STOCKS AND BONDS

HELD IN THE EMPLOYEES' SAVINGS AND PROFIT-SHARING TRUST FUND

As of February 28, 1949

For the information of participants in the Employees' Savings and Profit-Sharing Trust Fund the following is a list of the stocks and bonds held by the Trust as represented by the figure of $625,826.70 shown in the Trust balance sheet as of February 28, 1949:

COMMON STOCKS

Number of Shares	Company	Cost
BUILDING		
100	U. S. Gypsum	$ 8,962.50
100	U. S. Pipe & Foundry	5,600.00
200	Pittsburgh Plate Glass	7,200.00
		$21,762.50
CHEMICALS		
100	Monsanto Chemical	$ 2,779.17
CONTAINER		
400	Hazel Atlas Glass	$ 8,687.50
150	Owens-Illinois Glass	9,168.75
		$17,856.25
DRUGS AND ALLIED		
200	Parke Davis	$ 5,937.50
ELECTRICAL EQUIPMENT		
200	General Electric	$ 7,025.00
200	Westinghouse Electric	7,150.00
		$14,175.00
FINANCIAL — BANKS AND INSURANCE		
109	Manufacturers Trust Co. of New York	$ 5,075.00
100	National City Bank, N. Y.	4,125.00
200	Continental Insurance	11,375.00
200	Fidelity Phenix	12,350.00
100	Phoenix Ins. Co.	8,462.50
		$41,387.50
FOOD AND ALLIED		
50	Coca-Cola	$ 7,646.25
400	Mead Johnson	10,737.50
		$18,383.75
MACHINE AND EQUIPMENT		
200	Chain Belt	$ 3,975.00
100	Doehler-Jarvis	2,962.50
		$ 6,937.50
METALS AND MINING		
100	Kennecott Copper	$ 3,212.50
200	International Nickel	5,875.00
		$ 9,087.50
OFFICE EQUIPMENT AND ALLIED		
1,500	W. A. Sheaffer Pen Co.	$11,700.00
OIL		
100	Phillips Petroleum	$ 5,237.50
105	Standard Oil Co. of Calif.	5,362.50
143	Texas Corp.	7,537.50
		$18,137.50
RAILROAD AND RAILROAD EQUIPMENT		
100	Chesapeake & Ohio	$ 4,650.00
100	Westinghouse Air Brake	2,637.50
		$ 7,287.50
RETAIL		
100	Montgomery Ward	$ 6,137.50
100	Woolworth	4,312.50
		$10,450.00
UTILITY		
200	Boston Edison	$ 8,350.00
200	Cleveland Elec. Illum.	7,875.00
300	Commonwealth Edison	8,575.00
400	Detroit Edison	8,450.00
250	Pacific Gas & Electric	9,820.00
50	Peoples Gas Light & Coke	4,093.75
		$ 47,163.75
	TOTAL	$233,045.42

PREFERRED STOCKS

Number of Shares	Company	Cost
CHEMICALS		
50	Dow Chemical Co.	$ 5,125.00
100	E. I. DuPont de Nemours	10,325.00
50	Celanese Corporation	4,950.00
		$ 20,400.00
MINING		
50	American Smelting & Refining Co.	$ 7,670.00
TIRE AND RUBBER		
20	Firestone Tire & Rubber	$ 2,000.00
	TOTAL	$ 30,070.00

CORPORATION BONDS

Face Value	Company	Cost
INDUSTRIAL		
$25,000.00	Bethlehem Steel Corp.	$ 24,937.50
25,000.00	B. F. Goodrich Co.	25,030.00
25,000.00	National Steel Corp.	26,250.00
25,000.00	Phillips Petroleum Co.	25,406.25
25,000.00	Swift & Co.	25,000.00
		$126,623.75
PUBLIC UTILITY		
$25,000.00	American Tel. & Tel. Co.	$ 27,237.50
25,000.00	Ohio Power Co.	25,375.00
15,000.00	Pacific Gas & Elec. Co.	15,243.75
25,000.00	Public Service of Ind.	25,875.00
		$ 93,731.25
RAILROAD		
$10,000.00	Central Pacific Ry.	$ 10,187.50
30,000.00	Chicago R. I. & Pac. Ry.	29,936.62
20,000.00	Chesapeake & Ohio Ry.	19,784.00
25,000.00	Illinois Central Equip.	24,875.00
10,000.00	Pere Marquette Ry.	10,127.50
25,000.00	Southern Pacific Co.	24,351.30
		$119,261.92
SUNDRY		
$20,000.00	International Bank for Recon. & Dev.	$ 20,000.00
	TOTAL	$359,616.92

SUMMARY

Total Common Stocks @ Cost	$233,045.42
Total Preferred Stocks @ Cost	30,070.00
Total Corporation Bonds @ Cost	359,616.92
Total @ Cost	$622,682.34
Aggregate quoted Market Price	$620,934.61
Total @ Cost and Accrued Interest	625,826.70

The Trustees have access to and the benefit of the advice and guidance of the Trust Department of the Continental Illinois National Bank and Trust Company of Chicago and so far have followed this advice on investing the funds of the Trust, but are not in any way obligated to do so.